**Introduction**

Square Inc (*NYSE: SQ, Current Price: $38.09*), founded by Jack Dorsey in 2009, is a payment service provider that enables primarily small businesses to accept payments through simple hardware and software. Square profits from its two main segments, transaction revenue, which makes up 85% of net revenues and hardware and subscription-based services at 15% of net revenues. The company’s stock has grown 280% since its IPO and has shown no signs of slowing down. It is uniquely positioned to serve small businesses and strives to economically empower companies to grow by partnering with them to utilize accessible and affordable tools. Since going public in 2015, Square has expanded its product offerings to include a POS system, an online cash-transfer system, financing segment and employee management system.

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| ***Price*** | *38.09* | ***Beta*** | *1.51* |
| ***Price Target*** | *52.10* | ***WACC*** | *11.20%* |
| ***52 wk. High/Low*** | *13.89-48.06* | ***Gross Margin*** | *37.36* |
| ***Market Cap*** | *14.8B* | ***ROE*** | *-10.01* |
| ***Avg Daily Volume*** | *8.874M* | ***ROA*** | *-3.97* |
| ***Dividend*** | *0.00* | ***Price/Sales*** | *7.99* |
| ***Yield*** | *0%* | ***Forward P/E (est.)*** | *109* |

**Recommendation**

We recommend a **buy rating** on Square due to the 34% upside potential at a price target of $52.10. One key metric for Square is GPV (Gross payment volume) which shows the total amount of transactions processed through it’s hardware. This metric has continued to expand at a growing rate each quarter, with overall business growth rate of 31% YoY. Transaction based revenue grew at 48%, while subscription and service based revenues grew at 382%. Ebitda margins have continued to grow throughout 2017, becoming positive for the first time in Q2 2016 at $13M. They are expected to rise 14% next quarter. Square has maintained its goal of 500 bps of annual growth and continues to reinvest its revenue in new innovations which offset the slight slowdown in payment-processing revenue. Total net revenue is also up 33% YoY and their net loss is the smallest ever at -$16 million. Square is expected to grow at a steady rate of around 30% over the next five years. Square’s new and innovative product line continues to boost growth and sales. It recently launched Square Register, an all-in-one hardware POS system, in the US, Canada and Australia. In late 2014, Square acquired Caviar, a food delivery service catering to high-end customers, for $90 million. This strategic investment allowed Square to gain credibility and market share in the restaurant industry, which currently makes up 20% of revenues. Square Capital is continuing to surprise investors from its growth. Total loan volume has more than doubled the past three years, hitting $318 million loaned over 49,000 transactions in 2016.

**Investment Thesis**

It is important to look at Square from a different perspective than you would a more established company. Square is still in its early stages of growth which we forecast will continue for another 5 years before leveling out, similar to other payment processing companies during the same time period. With 20 million businesses in the US still not accepting payment cards, we believe Square will continue to gain market share because if its ability to serve customers of all sizes, particularly small companies, and innovate new and useful technologies with a strong management team.

**Valuation**

To find the intrinsic value of the stock, a five year DCF model was constructed using a 11.2% WACC. A price target of $50.71 was reached, which gives a 14.8% upside from the current price of $44.18. We also found the enterprise value of Square by adding total debt to market share, then subtracting cash and investments to get $14.381B. Finally, divide this value by shares outstanding (268M) to reach an intrinsic value of $53.49. Each method was given a 50% weight resulting in a $52.10 target price.

**Risks**

Though Square does have significant risk as a startup, we believe that because of their differentiating catalysts, Square is not only a good company, but a good stock as well. Firstly, it has still yet to turn a profit, though it has posted positive EBITDA for the last four quarters. It has also entered a crowded market. However, according to analysts from *Datanyze*, Square is already the fourth largest competitor in this space largely dominated by Paypal (70% market share). It is reaching a segment untouched by large competitors: small businesses. It’s payment structure of taking 2.75% of each transaction allows Square to grow with its customers.

**Stock Chart of Past Year Performance**



**Peer Analysis**

Square competes with several well-established and powerful companies such as Vantiv, Visa, PayPal and Stripe. However, because of their competitive advantages of innovative technology and partnership with smaller companies, they are successful. When comparing key ratios to their competitors, we observe that Square is on the bottom of the list in terms of profitability, however, the growth trend of 30% for the next five years shows Square is on track to meet or exceed these numbers within the next 1-3 years.

**Ownership of Shares**

97.49% of shares are held by institutions, leaving 2.51% to insiders. This is almost evenly broken up between the eight executive board members, however, Jack Dorsey holds 0 shares in Square. Among the institutions, 78% are held by investment advisors, 13% by hedge fund managers, and the other 9% split between various other institutions.

The top five shareholders are:

1. Fidelity 2. Vanguard 3. Allianz SZ 4. Capital Group Company

5. Blackrock Investment Firm